



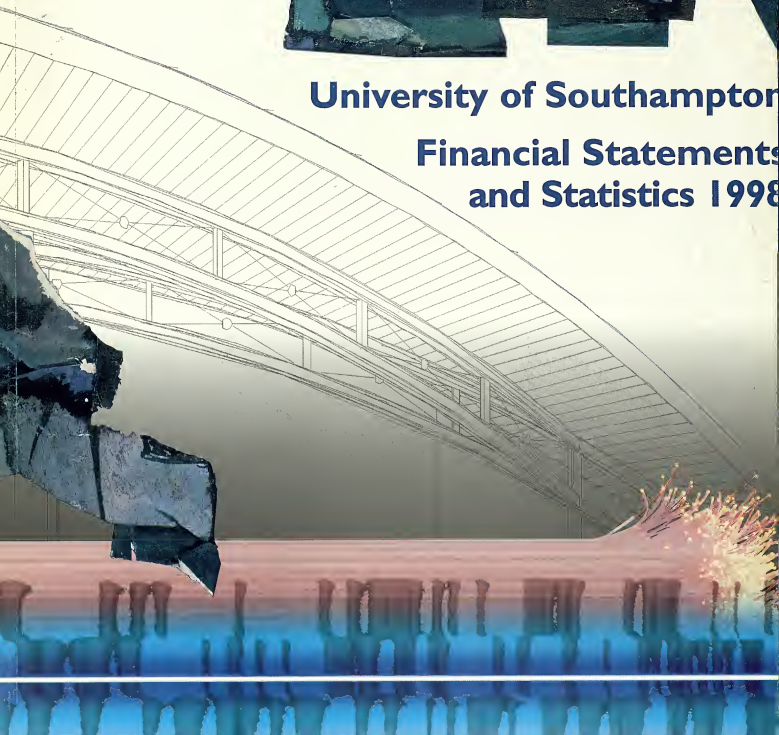
University
of Southampton

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University of Southampton

**Financial Statements
and Statistics 1998**



University of Southampton

Annual Report 1997 - 98



REFERENCE ONLY

Financial Statements and Statistics

University of Southampton and Subsidiary Undertakings

Financial Statements
for the year ended 31 July 1998

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Treasurer

Godfrey Whitehead, FCA

Director of Finance

Colin R Showell, BCom, CPFA

Deputy Director of Finance

Malcolm J Ace, MA, FCCA

Investment Advisers

*Lazard Asset Management Limited
21 Moorfields
London EC2P 2HT*

*James Capel Investment Management
6 Bevis Marks
London EC3A 7JQ*

Bankers to the University

*Midland Bank PLC
165 High Street
Southampton SO14 2NZ*

Bankers to Chilworth Manor Limited

*Lloyds Bank PLC
18 High Street
Southampton SO14 2SE*

External Auditors

*PricewaterhouseCoopers
The Quay
30 Channel Way
Ocean Village
Southampton SO14 3QG*

Internal Auditors

*PricewaterhouseCoopers
5 Town Quay
Southampton SO14 2HJ*

University of Southampton and Subsidiary Undertakings

Treasurer's Report 1997-1998

Scope of the Financial Statements

The Financial Statements comprise the consolidated results of the University and its subsidiary companies, listed in note 12. Where applicable, profits from the subsidiaries are covenanted to the University.

Results for the Year

The University's Consolidated Income, Expenditure and results for the year to 31 July 1998 are summarised as follows:

	1998 £000	1997 £000
Income	176,107	162,765
Expenditure	173,685	161,885
Surplus for the year based on revalued fixed assets	2,422	880

Had depreciation been charged on an Historic Cost basis, the surplus for 1998 would have been £4.439 million (1997: £3.038 million).

The University's total income increased by over 8% compared with the previous year, a substantial proportion of which has arisen from the successful incorporation of La Sainte Union College of Higher Education on 1 September 1997, which continued the University's recent expansion of its academic activities. This added about £2.8 million to our grant income from the Higher Education Funding Council (HEFCE), but even without this, we received an above average increase in our grant allocation, mainly reflecting our success in the last research assessment exercise.

For the first time for many years, research grant and contract income did not increase, but nevertheless, the level of £46 million was maintained, despite increasing competition, and this is a cause for some satisfaction, bearing in mind the rapid increases achieved in previous years. The University will be looking to improve on the consolidation achieved this year, so as to continue the pattern of increases. Nevertheless, the difficulties of continuing an upward pattern are very real. Other income achieved as a result of

trading on our research and consultancy expertise did continue to rise, from £10.5 million last year to £13.3 million this year.

Balance Sheet and Capital Developments

The Balance Sheet continues to show satisfactory strength and adequate liquidity to meet foreseeable requirements. Some lines in the Balance Sheet look slightly odd this year, with apparent reductions in Fixed Asset Investments but increases in both Current Assets and Current Liabilities. These transactions reflected the imminent termination of the University's Business Expansion Scheme flotation, made in 1993, which paid the cash-backed funds to investors just after the close of these accounts, in September 1998.

During the year, a loan of £12 million was taken out with the Yorkshire Bank to finance the construction of the new Synthetic Chemistry Building, whilst £9 million of internal cash reserves were used on a temporary basis to fund a new Student Residence at Hartley Grove and a new Commercial Services development to house four banks and a bookshop at the entrance to the Highfield campus. There was also a significant amount of expenditure to continue the remodelling and refurbishment of the University, including the recently acquired La Sainte Union site, now successfully integrated into the University as University of Southampton New College. Similarly at Winchester, developments continue, to improve accommodation for the School of Art and to accommodate the transfer from Hampton Court of the Textile Conservation Centre, a move which was assisted by a successful fund-raising campaign by the Centre.

Overall, these developments imply a considerable future funding requirement, for which the University has planned accordingly, using a mixture of internally generated funds and loan finance. Any long-term loan commitments will be monitored strictly and kept well below the maximum levels advised by the HEFCE. In addition, the Policy and Resources Committee is giving close attention to the future levels of capital expenditure which can be afforded, bearing in mind the calls on reserves, or trade-offs against revenue expenditure which capital expenditure ultimately implies.

University of Southampton and Subsidiary Undertakings

Treasurer's Report 1997-98

Investments

Investments continue to be managed by Lazard Asset Management and James Capel Investment Management. The University enjoyed general increases in market valuations of equities and stocks up to the Balance Sheet date, in line with industry benchmark returns. Over the year, exposure to far-eastern and emerging markets had been reduced to less than 2% of the total portfolio.

Since the Balance Sheet date, the market value of equities has declined during the period of global instability in financial markets. By the end of October 1998, the market value of equity investments had declined by over 7% from the Balance Sheet figures. These declines, whilst disappointing, must be seen in the context of rapid growth in the previous two years.

Cash Flow

The University generated some £10 million cash from its operating activities and drew down net loans (after some repayments of principal on existing loans) of £12 million to finance capital expenditure on the Synthetic Chemistry project. At the same time, however, further new capital expenditure of £9 million has been supported from available cash. It is intended to re-finance this within a few weeks by raising long term loans. The general position on cash balances remains healthy, with some £26 million of cash or near cash being held at Balance Sheet date, equivalent to almost two months of revenue expenditure. At this level, the cash reserve provides sufficient funding to support current working capital requirements.

University Companies

The principal trading companies, Chilworth Centre Limited (CCL) and Chilworth Manor Limited (CML) have performed very well during the year

and CML is ahead of the schedule agreed with Lloyds Bank for the repayment of the loan undertaken in the early 1990s. There is no recourse to the University in respect of this loan. Investigations are continuing into the possibility of further expansion of commercial activities on the Chilworth site and the University has made increasing use of its new company, Southampton Innovations Limited, (set up in January 1996) which it hopes will successfully generate significant income for the University from the exploitation, in various forms, of the expertise arising from research projects. At present, this company has invested considerable sums in companies seeking commercial outlets for technologies invented within the University. The gestation periods before such investments produce tangible inflows to the University can be long, but it is hoped that this company will shortly be contributing considerable extra income to the University. It is the University's vehicle for a substantial and, we believe, very strong, bid for funds from the Government's University Challenge initiative, designed to stimulate the marketing of university technological developments.

Looking Ahead

The University has taken action to ensure that the Year 2000 problem is dealt with efficiently. All departments are aware of the steps to be taken to ensure that their own systems are suitably modified where necessary.

The University continues to be a vibrant institution, seeking to respond to new initiatives, maintain the highest standards of teaching and research and play a full part in widening access to higher education. However, in responding to initiatives which support its ambitions, the University recognises the necessity of developing strategies to generate increased funding of both a capital and a revenue nature in future years.

Corporate Governance

Summary of Corporate Governance

The University was established in 1952 by Royal Charter which, together with the Statutes which came into force at the same time, provides the framework for the corporate governance of the institution. The Council is the governing body of the University, and is charged by the Statutes with responsibility for "the management and administration of the whole revenue and property of the University and the conduct of all the affairs of the University". In carrying out its functions, the Council is bound by the terms of the Financial Memorandum with the Higher Education Funding Council for England (HEFCE), which is updated annually, and the acceptance of which is a precondition for the receipt of HEFCE grants. The Senate is the other principal decision-making body prescribed in the Charter and Statutes; it is primarily responsible for coordinating and advancing the academic work of the University.

The Council numbers 37 persons, comprising ex-officio and lay members, and representatives of the academic and other staff, together with two students. The Chair and Vice-Chair of Council are appointed from amongst the lay membership, which always forms a majority on the Council. Whilst the Chancellor is the titular head of the University, the Vice-Chancellor is the University's principal academic and administrative officer, and Accounting Officer. The Treasurer is a lay and non-executive member of the Council whose remit is to advise generally on matters relating to the University economy, and to satisfy him/herself as to the soundness of the University's financial position and the integrity of its financial transactions. The Secretary and Registrar is responsible to Council, through the Vice-Chancellor, for all administrative functions of the University.

The Council meets at least three times a year, and receives reports on the functioning of the University and of its subsidiary companies. Matters specifically reserved for Council decision include the Mission and ongoing strategic direction of the University, and the approval of budgetary allocations and of major new developments. Much of the business of the Council is transacted through the committee

structure. In this structure the Policy and Resources Committee (PRC) - a joint committee with the Senate - performs a pivotal role. PRC is chaired by the Vice-Chancellor, and is responsible for preparing for consideration by Council the annual revenue and capital budgets; for recommending to Council the adoption of the Strategic Plan; for monitoring performance in relation to approved budgets; and for overseeing the execution of financial policies approved by the Council. PRC receives regular advice from two committees whose remit relates respectively to personnel and to estates policy, and also from the University Management Group which has day-to-day oversight of the financial position of the University. Other committees deal with such matters as student and staff welfare, safety and occupational health, the remuneration and promotion of staff, and the assessment of academic and administrative departmental performance.

The Audit Committee meets at least three times a year. Meetings are attended by the External Auditors, to discuss audit findings, and also by the Internal Auditors, to discuss detailed internal audit reports and recommendations for the improvement of the University's systems of financial control, together with management's response and implementation plans. The Committee also considers reports from the Higher Education Funding Council for England relating to the conduct of business and monitors adherence to the regulatory requirements. The Committee reviews the University's annual financial statements together with the accounting policies. Whilst senior executives are in attendance at meetings, they are not members of the Committee, which reserves the right to meet with the External Auditors for independent consultations.

The Nominations Committee is responsible for making recommendations for the filling of vacancies in the lay membership of Council, following internal and external advertisement and reference to the alumni of the University.

The Professorial and Senior Salaries Committee reviews the salaries of senior academic and administrative staff. The lay officers separately review the salary of the Vice-Chancellor.

Corporate Governance

All these committees are formally constituted with terms of reference and comprise lay and academic members, one of whom is in the chair. All members of the Council and of the committees, together with the executive officers, are subject to Standing Orders which inter alia require the maintenance of a Register of Interests; members may not be present at any discussion in which they have a direct or indirect financial interest.

Role of Council in the Preparation of the Financial Statements

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice on Accounting in Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, Council, through the Vice-Chancellor, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, Council has, through its committees and officers, ensured that:

- *suitable accounting policies are selected and applied consistently;*
- *judgements and estimates are made that are reasonable and prudent;*
- *applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;*
- *financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this*

reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- *ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and any other conditions which the Funding Council may from time to time prescribe;*
- *ensure that there are appropriate financial and management controls in place to safeguard funds from all sources;*
- *safeguard the assets of the University and prevent and detect fraud;*
- *secure the economical, efficient and effective management of the University's resources and expenditure.*

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- *clear definition of the responsibilities and delegated authority of heads of academic and administrative departments;*
- *a medium and short-term planning process, supplemented by detailed annual expenditure and capital budgets;*
- *regular reviews of academic performance and termly reviews of financial performances and updates of forecasts of outturns;*
- *clearly defined and formalised requirements for control of expenditure, appointment of staff, investment and borrowing decisions;*
- *comprehensive Financial Regulations approved by the Audit Committee and Council;*
- *a professional internal audit service from a major international accountancy firm.*

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the systems of internal control. Any such system can, however, only provide reasonable, but not absolute, assurance against financial misstatement or loss.

REPORT OF THE AUDITORS TO THE COUNCIL OF THE UNIVERSITY OF SOUTHAMPTON

We have audited the financial statements on pages 8 to 30 which have been prepared under the historical cost convention as modified by the revaluation of certain assets and the accounting policies set out on pages 11 and 12.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

As described on page 6, the University's Council is responsible for ensuring that financial statements are prepared. It is our responsibility to form an independent opinion, based on our audit, on the statements and to report our opinion to you.

BASIS OF OPINION


We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- (i) the financial statements give a true and fair view of the state of the affairs of the University and the group at 31 July 1998, and of their income and expenditure and the group's cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting in Higher Education Institutions and with the University's Charter of Incorporation;
- (ii) income from Funding Council grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received;
- (iii) income has been applied in accordance with the University's Statutes and where appropriate with the Financial Memorandum dated July 1997 with the Higher Education Funding Council for England and the Funding Agreement dated December 1997 with the Teacher Training Agency.

PRICEWATERHOUSECOOPERS 

Chartered Accountants
and Registered Auditors

Southampton
15 December 1998

University of Southampton and Subsidiary Undertakings

Income and Expenditure Accounts for the year ended 31 July 1998

		Consolidated		University	
	Notes	1998	1997	1998	1997
		£000	£000	£000	£000
INCOME					
Funding Council grants	2	59,326	53,391	59,326	53,391
Academic fees and support grants	3	35,026	31,709	35,026	31,709
Research grants and contracts	4	45,928	46,215	45,928	46,215
Other operating income	5	33,212	29,252	30,653	27,081
Endowment income and interest receivable	6	2,615	2,198	2,588	2,180
Total income		176,107	162,765	173,521	160,576
EXPENDITURE					
Staff costs	7	93,325	87,938	93,182	87,796
Depreciation	11	8,954	8,049	8,672	7,800
Other operating expenses	8	67,695	63,624	66,313	62,390
Interest payable	9	3,617	2,259	3,407	1,889
Total expenditure	10	173,591	161,870	171,574	159,875
Surplus after depreciation of assets at valuation and before minority interest					
		2,516	895	1,947	701
Minority interest					
		(94)	(15)	—	—
Surplus attributable to the University					
		2,422	880	1,947	701

Note of Historical Cost Surpluses and Deficits for the year ended 31 July 1998

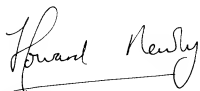
	Note	Consolidated		University	
		1998 £000	1997 £000	1998 £000	1997 £000
Surplus after depreciation of assets at valuation and minority interest		2,422	880	1,947	701
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	21	2,017	2,158	2,017	2,158
Historical cost surplus after minority interest		4,439	3,038	3,964	2,859

University of Southampton and Subsidiary Undertakings

Balance Sheets as at 31 July 1998

	Notes	Consolidated		University	
		1998	1997	1998	1997
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	11	209,040	189,293	204,538	184,658
Investments	12	9,817	9,391	215	215
Investment – Business Expansion Scheme	12	–	17,102	–	17,102
		<u>218,857</u>	<u>215,786</u>	<u>204,753</u>	<u>201,975</u>
ENDOWMENT ASSET INVESTMENTS	13	6,143	5,313	6,143	5,313
DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR	14	3,682	3,210	16,647	17,394
CURRENT ASSETS	15	69,488	51,089	70,730	53,964
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(52,268)	(32,519)	(54,136)	(35,264)
NET CURRENT ASSETS		<u>17,220</u>	<u>18,570</u>	<u>16,594</u>	<u>18,700</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>245,902</u>	<u>242,879</u>	<u>244,137</u>	<u>243,382</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	(51,564)	(54,449)	(53,632)	(57,766)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(5,434)	(2,821)	(5,110)	(2,547)
TOTAL ASSETS LESS LIABILITIES		<u>188,904</u>	<u>185,609</u>	<u>185,395</u>	<u>183,069</u>
DEFERRED CAPITAL GRANTS	19	(46,639)	(45,986)	(46,639)	(45,986)
TOTAL NET ASSETS		<u>142,265</u>	<u>139,623</u>	<u>138,756</u>	<u>137,083</u>
Represented by:					
ENDOWMENTS					
Specific	20	3,853	3,281	3,853	3,281
General	20	2,290	2,032	2,290	2,032
		<u>6,143</u>	<u>5,313</u>	<u>6,143</u>	<u>5,313</u>
RESERVES					
Revaluation reserve	21	84,009	85,506	81,217	83,114
Income and Expenditure account	22	52,113	48,804	51,396	48,656
		<u>136,122</u>	<u>134,310</u>	<u>132,613</u>	<u>131,770</u>
TOTAL FUNDS		<u>142,265</u>	<u>139,623</u>	<u>138,756</u>	<u>137,083</u>

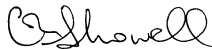
The financial statements on pages 8 to 30 were approved by the Council on 15 December 1998, and signed on its behalf by:



Vice-Chancellor
(Chair of Policy and Resources Committee)



Treasurer



Director of Finance

University of Southampton and Subsidiary Undertakings

Consolidated Cashflow Statement for the year ended 31 July 1998

	Notes	1998 £000	1997 £000
Net cash inflow from operating activities	29	10,030	12,141
Returns on investments and servicing of finance	30	(589)	7
Capital expenditure and financial investment	31	(20,955)	(9,579)
Cash (outflow)/inflow before use of liquid resources and financing		(11,514)	2,569
Management of liquid resources		1,101	(16,324)
Net financing		11,966	10,012
Increase/(decrease) in cash		1,553	(3,743)

Reconciliation of Net Cash Flow to Movement in Net Funds

		1998 £000	1997 £000
Increase/(decrease) in cash in the period		1,553	(3,743)
Increase in investments	15	16,001	16,324
New loans and increased debt	32	(15,915)	(10,973)
Repayment of debt	32	1,288	961
Change in net funds		2,927	2,569
Net funds at 1 August	33	(21,660)	(24,229)
Net funds at 31 July	33	(18,733)	(21,660)

Statements of Total Recognised Gains and Losses for the year ended 31 July 1998

	Notes	Consolidated 1998 £000	1997 £000	University 1998 £000	1997 £000
Surplus after depreciation of assets at valuation		2,516	895	1,947	701
Unrealised (deficit)/surplus on endowment asset investments	20	(3)	531	(3)	531
Realised gains on endowment asset investments		460	—	460	—
Endowment income retained for year	20	107	174	107	174
New endowments	20	201	10	201	10
Transfer to deferred income		—	(2,736)	—	(2,736)
Merger of the Winchester School of Art		—	3,939	—	3,980
Goodwill written off on acquisition of La Sainte Union College of Higher Education	35	(1,159)	—	(1,159)	—
Unrealised surplus on revaluation of property	21	520	3,228	120	2,728
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		2,642	6,041	1,673	5,388

The notes on pages 11 to 30 form part of these accounts

Notes to the Financial Statements for the year ended 31 July 1998

I. Statement of principal accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and certain land and buildings in accordance with both the Statement of Recommended Practice: Accounting in Higher Education Institutions (SORP) and applicable accounting standards.

(b) Basis of consolidation

The consolidated financial statements consolidate the financial statements of the University and all its subsidiary undertakings.

The consolidated financial statements do not include those of the University of Southampton Students' Union as it is a separate entity over which the University does not exercise control or significant influence over policy decisions.

All income for the year relates to continuing activities.

(c) Recognition of income

Government basic and other recurrent grants are included in the year to which they relate. Specific grants are brought into income to the extent of expenditure in the year.

Income from specific endowments and donations, research grants and contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards indirect costs.

Income from short-term investments, deposits and general endowment asset investments is accrued up to the balance sheet date.

Income from other external contracts, consultancies and services rendered is credited to the income and expenditure account to the extent of amounts invoiced during the year.

(d) Pension schemes

Pensions are provided by means of funded defined benefit schemes and annual contributions are based on actuarial advice. The expected cost of providing pensions is recognised on a systematic and rational basis over the expected average remaining service life of members of the schemes.

(e) Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the mid-term. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

(f) Leases

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the income and expenditure account over the period of the lease and represents a constant proportion of the balance of the capital repayments outstanding. Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

(g) Land and buildings

Expenditure on land and buildings is capitalised. Depreciation is charged on the following bases:

- (i) Buildings acquired after 1 August 1989 - on a straight line basis over 50 years, with the exception of certain special purpose buildings with shorter useful lives.
- (ii) Buildings acquired before 1 August 1989 - on a straight line basis over 30 years commencing in August 1989.

Notes to the Financial Statements for the year ended 31 July 1998

I. Statement of principal accounting policies (continued)

- (iii) One leasehold building held by a subsidiary undertaking - on a straight line basis over 99 years being the term of the lease.

In accordance with SSAP4 grants received from Exchequer sources are held as deferred income and released to the income and expenditure account over the estimated life of the asset.

Buildings owned by the University are revalued every five years. The most recent revaluation took place on 31 July 1995. The University has incorporated the buildings previously owned by the Winchester School of Art which were revalued on 30 November 1994.

Investment properties are accounted for at market value. Properties are revalued annually and any surplus or deficit arising is taken to a revaluation reserve in general funds.

(ii) Equipment

Equipment purchased by the University and costing less than £20,000 per individual item or group of related items is written off in the year of acquisition. Equipment costing over £20,000 and all equipment held by the subsidiary undertakings is capitalised.

Equipment capitalised by the University is stated at cost and depreciated over three years. Capitalised furniture and equipment held by subsidiary undertakings is depreciated over periods not exceeding 10 years.

Depreciation is charged to the income and expenditure account on a straight line basis.

(i) Investments

Endowment asset investments are included in the balance sheet at market value. Current asset investments are included at the lower of cost and net realisable value.

(j) Stocks

Catering, trading and centrally held stocks are stated at the lower of cost and net realisable value. Stocks held by teaching and research departments are excluded from the balance sheet, this expenditure being charged to the income and expenditure account when incurred.

(k) Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

(l) Maintenance of premises

Expenditure on routine corrective maintenance is charged to the income and expenditure account when incurred. There is a substantial backlog of long term maintenance and the University has a strategy for reducing this backlog and makes an annual provision against which expenditure is incurred in accordance with the previously determined strategy.

(m) Goodwill

Goodwill arising on consolidation and acquisition is written off directly to reserves.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

2. Funding Council Grants

Consolidated and University

	1998	1997
	£000	£000
Recurrent grants:		
Higher Education Funding Council for England (HEFCE)	53,658	49,134
Teacher Training Agency	896	805
Further Education Funding Council	299	333
Specific grants:		
Information services	331	190
Other	2,557	742
Deferred Capital Grants released in year:		
Buildings (note 19)	1,547	1,532
Equipment (note 19)	38	655
	<u>59,326</u>	<u>53,391</u>

3. Academic fees and support grants

Consolidated and University

	1998	1997
	£000	£000
Full-time home/EU students	16,531	14,624
Full-time overseas students	6,694	6,039
Part-time students	1,910	1,615
Further education fees	—	58
Research training support grants	847	1,007
Special and short course fees	1,701	1,434
Teaching contract fees (Health Education)	7,343	6,932
	<u>35,026</u>	<u>31,709</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

Consolidated and University

4. Research grants and contracts	1998 £000	1997 £000
<i>INCOME</i>		
Research councils	17,097	18,504
UK based charities	6,237	6,154
UK Central Government/local authorities/ health authorities and hospitals	6,917	7,655
UK public corporations/industry and commerce	7,184	6,298
EU Government	4,316	4,503
EU other sources	1,100	1,056
Other overseas sources	2,931	1,979
Other sources	146	66
	<u>45,928</u>	<u>46,215</u>
 <i>EXPENDITURE – DIRECT COSTS</i>		
Salaries and wages	21,852	21,652
Equipment	3,358	4,342
Depreciation	1,538	1,009
Other costs	11,262	11,234
(note 10)	<u>38,010</u>	<u>38,237</u>
 Contribution to indirect costs	<u>7,918</u>	<u>7,978</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

5. Other operating income	1998	1997
	£000	£000
<i>University:</i>		
<i>Residences, catering and conferences</i>	11,081	9,972
<i>Consultancies, trading and services rendered</i>	13,337	10,517
<i>Health authorities</i>	816	858
<i>Other income</i>	5,419	5,734
	<u>30,653</u>	<u>27,081</u>
<i>Subsidiaries:</i>		
<i>Other income</i>	6,562	5,092
<i>Less intra group transactions</i>	<u>(4,003)</u>	<u>(2,921)</u>
	<u>33,212</u>	<u>29,252</u>
 6. Endowment income and interest receivable	 1998	 1997
	£000	£000
<i>University:</i>		
<i>Transferred from specific endowments (note 20)</i>	135	111
<i>Income from general endowment asset investments (note 20)</i>	140	183
<i>Income from short term deposits and investments</i>	2,313	1,886
	<u>2,588</u>	<u>2,180</u>
<i>Subsidiaries:</i>		
<i>Other interest receivable</i>	481	401
<i>Less inter company transactions</i>	<u>(454)</u>	<u>(383)</u>
	<u>2,615</u>	<u>2,198</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

7. Staff	Consolidated		University	
	1998	1997	1998	1997
	£000	£000	£000	£000
<i>Staff costs:</i>				
Wages and salaries	78,635	73,149	78,501	73,024
Social Security costs	6,168	5,855	6,159	5,844
Other pension costs	8,522	8,934	8,522	8,928
	<u>93,325</u>	<u>87,938</u>	<u>93,182</u>	<u>87,796</u>
	1998	1997	1998	1997
	Number	Number	Number	Number
<i>Average staff numbers by major category inclusive of part-time appointments</i>				
Academic/clinical/research	1,627	1,599	1,627	1,599
Administrative and academic support	613	557	612	551
Technical	364	358	364	358
Other (including clerical and manual)	1,664	1,638	1,662	1,638
	<u>4,268</u>	<u>4,152</u>	<u>4,265</u>	<u>4,146</u>
			1998	1997
			£000	£000

Emoluments of the Vice-Chancellor

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The emoluments of the Vice-Chancellor are shown on the same basis as those for higher paid staff. The University's pension contributions to Universities Superannuation Scheme Limited (USS) amounted to £22,774 which includes a sum in respect of previous years (1997: £13,150).

Higher Paid Staff:

Remuneration of higher paid staff, excluding employer's pension contributions, but including NHS distinction awards where appropriate:

	Consolidated and University	
	1998	1997
	Number	Number
£50,000 – £59,999	41	29
£60,000 – £69,999	13	10
£70,000 – £79,999	9	9
£80,000 – £89,999	2	3
£90,000 – £99,999	3	4
£100,000 – £109,999	3	5
£110,000 – £119,999	4	–

Enhanced Pension Benefits:

Payments by the University on behalf of two staff (1997: two) earning in excess of £50,000 per annum:

	1998	1997
	£000	£000
Payment to USS for enhanced pension benefits	190	66

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

8. Other operating expenses

	1998 £000	1997 £000
<i>University:</i>		
Non capitalised equipment	11,747	10,735
Consumables and laboratory expenditure	7,364	6,929
Administrative and central costs	7,750	6,732
Residences, catering and conferences operating expenses	6,033	4,887
Travel costs	4,814	4,349
Repairs and maintenance	8,600	6,943
Heat, light, water and power	2,584	1,944
Books and periodicals	1,832	1,748
Fellowships, scholarships and prizes	2,946	2,547
Rents	1,909	2,789
Grant to Students' Union	964	858
Telephone operating lease	187	175
Auditors' remuneration	14	14
Auditors' remuneration in respect of non-audit services	–	11
Other expenses	9,569	11,729
	<u>66,313</u>	<u>62,390</u>
<i>Subsidiaries:</i>		
Administrative and other expenses	4,886	3,697
Less intra group transactions	(3,504)	(2,463)
	<u>67,695</u>	<u>63,624</u>

9. Interest payable

	Consolidated		University	
	1998 £000	1997 £000	1998 £000	1997 £000
Loans not wholly repayable within five years	3,467	2,210	3,257	1,840
Loans wholly repayable within five years	119	11	119	11
Finance leases	31	38	31	38
	<u>3,617</u>	<u>2,259</u>	<u>3,407</u>	<u>1,889</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

10. Analysis of 1998 expenditure by activity

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
<i>University:</i>					
<i>Academic departments</i>	49,084	677	10,499	—	60,260
<i>Academic services</i>	4,883	172	3,914	—	8,969
<i>Research grants and contracts (note 4)</i>	21,852	1,538	14,620	—	38,010
<i>Residences, catering and conferences</i>	2,861	28	6,033	830	9,752
<i>Premises</i>	3,515	5,703	14,969	—	24,187
<i>Administration and central services</i>	4,869	90	4,062	—	9,021
<i>Other activities</i>	6,118	464	12,216	2,577	21,375
	<u>93,182</u>	<u>8,672</u>	<u>66,313</u>	<u>3,407</u>	<u>171,574</u>
<i>Subsidiaries:</i>					
<i>Expenditure</i>	143	282	4,886	664	5,975
<i>Less inter company transactions</i>	—	—	(3,504)	(454)	(3,958)
	<u>93,325</u>	<u>8,954</u>	<u>67,695</u>	<u>3,617</u>	<u>173,591</u>

The depreciation charge has been funded by:

<i>Deferred Capital Grants released (note 19)</i>	1,585
<i>General income</i>	7,369
	<u>8,954</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

11. Tangible assets

	Consolidated					University				
	Land and buildings		Assets in course of construction	Furniture fittings and equipment	Total	Land and buildings		Assets in course of construction	Equipment	Total
	Completed Freehold	Completed Leasehold				Completed Freehold	Completed Leasehold			
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Valuation/cost										
<i>At 1 August 1997</i>										
<i>valuation</i>	150,125	—	—	—	150,125	150,125	—	—	—	150,125
<i>cost</i>	24,920	17,193	6,742	10,206	59,061	24,920	12,700	6,742	8,134	52,496
<i>Additions at cost</i>	5,739	43	18,568	4,260	28,610	5,739	—	18,557	4,165	28,461
<i>Transfers at cost</i>	2,084	3	(2,084)	(3)	—	2,084	—	(2,084)	—	—
<i>Disposals at cost</i>	—	—	—	(64)	(64)	—	—	—	(64)	(64)
<i>Assets written down</i>	(711)	—	—	—	(711)	(711)	—	—	—	(711)
<i>Donated asset</i>	120	—	—	—	120	120	—	—	—	120
<i>At 31 July 1998</i>										
<i>valuation</i>	149,637	—	—	—	149,637	149,637	—	—	—	149,637
<i>cost</i>	32,640	17,239	23,226	14,399	87,504	32,640	12,700	23,215	12,235	80,790
Depreciation										
<i>At 1 August 1997</i>	(11,676)	(1,028)	—	(7,189)	(19,893)	(11,676)	(508)	—	(5,779)	(17,963)
<i>Charge for year</i>	(4,968)	(329)	—	(3,299)	(8,596)	(4,968)	(254)	—	(3,092)	(8,314)
<i>Eliminated on disposal</i>	—	—	—	35	35	—	—	—	35	35
<i>Assets written down</i>	353	—	—	—	353	353	—	—	—	353
<i>At 31 July 1998</i>	(16,291)	(1,357)	—	(10,453)	(28,101)	(16,291)	(762)	—	(8,836)	(25,889)
Net book value										
<i>At 31 July 1998</i>	165,986	15,882	23,226	3,946	209,040	165,986	11,938	23,215	3,399	204,538
<i>At 1 August 1997</i>	163,369	16,165	6,742	3,017	189,293	163,369	12,192	6,742	2,355	184,658

Included in freehold land and buildings is expenditure of £7,027,000 funded by the HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership.

The University has incurred expenditure of £12,700,000 for the Southampton Oceanography Centre, funded by the HEFCE in respect of buildings constructed by Natural Environment Research Council.

Included in the cost of buildings held by subsidiary undertakings is interest capitalised amounting to £488,000 (1997: £488,000).

Land and buildings held by the University were revalued at 31 July 1995, by Chesterton plc. The basis of valuation was in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Where appropriate assets were valued at their open market value for existing use but specialised buildings, where open market value was not readily available, were valued at depreciated replacement cost.

In addition to the above expenditure on tangible assets a further £10,208,000 has been committed by the University (note 24).

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

12. Fixed asset investments	Consolidated		University	
	1998 £000	1997 £000	1998 £000	1997 £000
Investment in subsidiary undertakings at cost	—	—	125	125
Other investments	117	91	90	90
Chilworth Research Park	9,700	9,300	—	—
Investment in Business Expansion Scheme (note 27)	—	17,102	—	17,102
	<u>9,817</u>	<u>26,493</u>	<u>215</u>	<u>17,317</u>

The University group structure, where all the companies held are registered in England and Wales, is as follows:

	Percentage holding	Nature of activity
<i>Held by the University</i>		
Marinetch South Limited	25.00	Research innovation
Southampton University Management School	50.00 *	Educational services
University of Southampton Holdings Limited (USH Limited)	100.00	Holding company
Winchester School of Art Enterprises Limited	100.00	Publications
<i>Investments held by USH Limited</i>		
Chilworth Centre Limited	100.00	Research park management
Chilworth Manor Limited	75.01	Residential conference centre
Concurrent Computation Company Limited	14.00	Management services
Henry Robinson Hartley Limited	100.00	Estate management
Southampton Innovations Limited (SI Limited)	100.00	Innovation and patents
Southampton Residences Limited	100.00	Property management services
Southampton University Management School	50.00 *	Educational services
<i>Investments held by SI Limited</i>		
Biopraxis Limited	25.00	Research innovation
Exoset Limited	28.00	Insect destruction
Multicosm Limited	5.48	Software development
Thermotic Developments Limited	10.00	Research innovation

* Company limited by guarantee, maximum liability £1

Chilworth Research Park has been included on the basis of freehold open market value for existing use as at 31 July 1998 as determined by Vail Williams, in accordance with the Statements of Asset Valuation Practice and Guidance notes by the RICS. The market value of the research park increased by £400,000 during the year. The historical and net book value of these assets at 31 July 1998 amounted to £6,589,000 (1997: £6,589,000) which included interest capitalised amounting to £275,000 (1997: £275,000).

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

13. Endowment asset investments	Consolidated and University	
	1998 £000	1997 £000
Balance at 1 August	5,313	4,489
Additions	4,716	1,247
Disposals	(3,883)	(954)
(Depreciation)/appreciation on valuation for year	(3)	531
Balance at 31 July	6,143	5,313
Represented by:		
Fixed interest stocks	750	458
Equities	136	2,466
Unit trusts and managed funds	4,174	1,303
Total stocks, equities and managed funds at market value	5,060	4,227
Short term deposits	1,049	880
Cash balances	34	206
Total	6,143	5,313
Total stocks, equities and managed funds at cost	4,836	2,951

14. Long term debtors and prepayments	Consolidated		University	
	1998 £000	1997 £000	1998 £000	1997 £000
Amounts owed by subsidiary undertakings	—	—	355	270
Prepayments to subsidiary undertakings	—	—	12,610	13,914
Other prepayments	3,682	3,210	3,682	3,210
	3,682	3,210	16,647	17,394

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

15. Current assets	Consolidated		University	
	1998 £000	1997 £000	1998 £000	1997 £000
Stock	323	322	297	295
Debtors and Prepayments:				
Grants from HEFCE	659	22	659	22
Trade debtors	5,213	4,289	5,232	4,153
Tuition fees	1,795	738	1,795	738
Research grants and contracts	10,630	11,011	10,630	11,011
Prepayment to group undertakings	—	—	2,923	3,842
Other prepayments	1,019	726	968	663
Other debtors	3,202	4,888	3,898	5,581
	22,518	21,674	26,105	26,010
Investments	39,245	23,244	39,245	23,244
Cash at bank and on deposit	7,402	5,849	5,083	4,415
	<u>69,488</u>	<u>51,089</u>	<u>70,730</u>	<u>53,964</u>
Investments are represented by:				
			1998 £000	1997 £000
Investments to support Business Expansion Scheme			18,169	—
Quoted shares and securities *			11,436	8,859
Cash deposits at banks and building societies (maturity date after 1 August)			9,640	14,385
			<u>39,245</u>	<u>23,244</u>
			13,929	9,846

* Market value of quoted shares and securities

16. Creditors: amounts falling due within one year	Consolidated		University	
	1998 £000	1997 £000	1998 £000	1997 £000
Advance income on research	10,321	10,142	10,321	10,142
Social Security and other taxation	3,359	3,584	3,197	3,100
Amounts owed to group undertakings	—	—	3,337	4,602
Business Expansion Scheme (note 27)	18,169	—	18,169	—
Trade and other creditors	9,833	9,510	9,029	9,319
Accruals and deferred income	10,586	9,283	10,083	8,101
	<u>52,268</u>	<u>32,519</u>	<u>54,136</u>	<u>35,264</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

17. Creditors: amounts falling due after more than one year

	Consolidated		University	
	1998 £000	1997 £000	1998 £000	1997 £000
Bank loans				
Other loans (local authority)	42,978	32,233	33,322	22,095
Finance leases	—	157	—	157
Amounts owed to group undertakings	168	228	168	228
Leases held in hall of residence by Business Expansion Scheme	—	—	12,519	13,791
Other creditors	—	17,102	—	17,102
Accruals and deferred income	2,937	—	2,474	—
	5,481	4,729	5,149	4,393
	<u>51,564</u>	<u>54,449</u>	<u>53,632</u>	<u>57,766</u>

Bank loans as at 31 July 1998 may be analysed as follows:

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 1998 £000	Balance outstanding 1997 £000
<i>University:</i>					
Lloyds Bank *	1985	2012	fixed	571	607
Midland Bank *	1993	2018	variable	9,212	9,506
Midland Bank *	1995	2015	variable	2,150	2,281
National Westminster Bank	1996	2016	fixed	9,473	9,701
Yorkshire Bank	1997	2018	fixed/variable	11,916	—
				<u>33,322</u>	<u>22,095</u>
<i>Subsidiaries:</i>					
Lloyds Bank *	1995	2014	variable	4,778	5,100
Midland Bank *	1996	2011	variable	4,878	5,038
				<u>42,978</u>	<u>32,233</u>

* Loans secured on specific assets.

The University does not guarantee the borrowings of any subsidiary undertaking.

18. Provisions for liabilities and charges

	Consolidated			University		
	Maintenance £000	Other £000	Total £000	Maintenance £000	Other £000	Total £000
At 1 August 1997	875	1,946	2,821	601	1,946	2,547
Utilised during year	(3,519)	(2,169)	(5,688)	(3,440)	(2,169)	(5,609)
Net transfer from Income and Expenditure account	5,364	2,937	8,301	5,235	2,937	8,172
At 31 July 1998	<u>2,720</u>	<u>2,714</u>	<u>5,434</u>	<u>2,396</u>	<u>2,714</u>	<u>5,110</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

19. Deferred capital grants

	Consolidated and University		
	Funding Council £000	Other grants £000	Total £000
<i>At 1 August 1997</i>			
Buildings	45,089	722	45,811
Equipment	175	—	175
Total	45,264	722	45,986
<i>Received</i>			
Buildings	2,165	—	2,165
Equipment	73	—	73
Total	2,238	—	2,238
<i>Released to Income and Expenditure Account</i>			
Buildings (note 2)	(1,514)	(33)	(1,547)
Equipment (note 2)	(38)	—	(38)
Total (note 10)	(1,552)	(33)	(1,585)
<i>At 31 July 1998</i>			
Buildings	45,740	689	46,429
Equipment	210	—	210
Total	45,950	689	46,639

	Consolidated and University		
	Specific £000	General £000	Total £000
<i>At 1 August 1997</i>	3,281	2,032	5,313
Additions	201	—	201
Unrealised (depreciation)/appreciation of endowment asset investments	(30)	27	(3)
Realised gains from sales in year	294	166	460
Income for year	242	140	382
Transferred to Income and Expenditure account	(135)	(140)	(275)
Appropriated from Income and Expenditure account	—	65	65
<i>At 31 July 1998</i>	3,853	2,290	6,143
<i>Representing:</i>			
Fellowships and scholarship funds	1,333	—	1,333
Prize funds	371	—	371
Chairs and lectureships funds	1,398	—	1,398
Other funds	751	2,290	3,041
	3,853	2,290	6,143

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

21. Revaluation Reserve	Consolidated		University	
	1998	1997	1998	1997
	£000	£000	£000	£000
<i>Revaluations</i>				
At 1 August	90,198	86,970	87,806	85,078
Revaluation in year/donated asset	520	3,228	120	2,728
At 31 July	90,718	90,198	87,926	87,806
<i>Contribution to depreciation</i>				
At 1 August	4,692	2,534	4,692	2,534
Released in year	2,017	2,158	2,017	2,158
At 31 July	6,709	4,692	6,709	4,692
<i>Net revaluation amount</i>	84,009	85,506	81,217	83,114

22. Reconciliation of Income and Expenditure Accounts	Consolidated	University
	£000	£000
<i>Surplus after depreciation of assets at valuation but before minority interest</i>	2,516	1,947
<i>Release from revaluation reserve</i>	2,017	2,017
<i>Historical cost surplus</i>	4,533	3,964
<i>Balance at 1 August 1997</i>	48,804	48,656
<i>Less goodwill written off on acquisition of</i>		
<i>La Sainte Union College of Higher Education</i>	(1,159)	(1,159)
<i>Transfer to general endowments (note 20)</i>	(65)	(65)
<i>Balance at 31 July 1998</i>	52,113	51,396
<i>Represented by:</i>		
<i>Allocated to University departments</i>	28,427	28,427
<i>Centrally controlled</i>	23,686	22,969
	52,113	51,396

£40,330,000 (1997: £28,482,000) of the above has been used already to finance University capital developments.

23. Lease obligations	Consolidated and University	
	1998	1997
	£000	£000
<i>Obligations under finance leases fall due as follows:</i>		
<i>Between two and five years</i>	188	228
<i>Over five years</i>	—	50
<i>Total over one year</i>	188	278
<i>Within one year</i>	80	100
<i>Less future finance charges</i>	(40)	(77)
	228	301

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

24. Capital commitments	Consolidated and University	
	1998 £000	1997 £000
Commitments contracted	10,208	23,294
Authorised but not contracted	1,500	4,763
	<u>11,708</u>	<u>28,057</u>
	1998	1997
	£000	£000
Contracted commitments		
Synthetic Chemistry Building	2,575	11,331
Hartley Grove Residences	2,418	5,544
Commercial Services Building	1,690	—
Textile Conservation Centre	1,288	—
Main Site Enhancements	1,076	1,834
Electronics and Computer Science Building	565	4,177
Winchester Campus Phase IV	458	—
Avenue Campus	115	408
Southampton Oceanography Centre Store	23	—
	<u>10,208</u>	<u>23,294</u>

25. Liability insurance

The University of Southampton has effected insurance cover in respect of liability for all members and officers who participate in the management of the University and its subsidiary undertakings.

26. Related party transactions

The University has complied with the Financial Reporting Standard on related party transactions and there are no transactions to report.

27. Post balance sheet event

In September 1993, the University contracted with four companies established under Business Expansion Scheme (BES) legislation, for the long lease of a University owned hall of residence. The University deposited such funds in 1993 which by September 1998 would enable it to meet the terms of options contained in the BES scheme prospectus and the contracts between the University and the BES companies. Since September 1993, the deposits of funds and the possible contractual liability contained in the options have been shown as investments of the University and long term liabilities respectively.

On 15 September 1998 the University acquired the shares of Southampton Student Halls I plc (cost £4,880,000) and Southampton Students Halls IV plc (cost £3,660,000), and on 30 September 1998 the shares of Southampton Student Halls II plc (cost £4,880,000) and Southampton Student Halls III plc (cost £4,880,000). The companies have been converted to private companies wholly owned by the University.

The various transactions underlying the contractual relationships have been disclosed more fully in notes 12, 15 and 16.

Notes to the Financial Statements for the year ended 31 July 1998

28. University pension schemes

The University participates in the Universities Superannuation Scheme, (USS), in respect of the majority of academic and academically-related staff. The Scheme provides benefits based on final pensionable salary for employees of all UK universities and some other employers and is contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate, trustee-administered fund.

In addition, the University contributes to a self-administered pension and assurance scheme for non academic staff (PASNAS). The scheme is a defined benefit scheme, funded by contributions made in accordance with the recommendations of the scheme's actuaries.

The actuaries' recommendations for contributions to both schemes are based on triennial valuations of the schemes' liabilities. In the intervening years, the actuaries review the progress of the schemes. Pension costs are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. Unless it is considered prudent to recognise deficiencies over a shorter period, variations from regular cost are spread over the expected average working lifetime of members of the schemes, after making suitable allowances for future withdrawals. The latest valuations of the schemes for which results are available and the significant assumptions applied were:

	USS	PASNAS
Valuation date	31 March 1996	1 August 1995
Market value of assets	£12,087 million	£49 million
Investment return	8.5% p.a.	9.0% p.a.
Increase in salaries	6.5% p.a.	7.0% p.a.
Increase in pensions	5.0% p.a.	5.0% p.a.
Pension cost (calculated as a percentage of total salaries)		
Regular cost	14.6%	12.3%
Variation from regular cost	(0.6%)	(8.8%)
Total pension cost	<u>14.0%</u>	<u>3.5%</u>

USS

At the last actuarial valuation of the scheme on 31 March 1996 the actuarial value of the assets was sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The pension cost has been calculated using the projected unit method and the assumptions shown above. The total pension cost was £6,905,000 (1997: £7,543,000).

The variation from regular cost has been calculated so as to extinguish the past service shortfall over 5 years. The University paid contributions at the rate of 14.00% of total salaries for the year.

PASNAS

The valuation on the 1 August 1995 indicated that the scheme's assets represented 152% of the benefits that had accrued to members after allowing for expected increases in earnings. A surplus of £15.4 million remains and this will be amortised over the future.

It was recommended that the University continue taking a contribution holiday until the next valuation on 1 August 1998.

Following consideration of the 1995 valuation, a recalculation of the provision shown in the accounts in accordance with SSAP 24 indicated that the provision should be released back to the income and expenditure account. A sum of £1,233,680 has been released this year thereby reducing the expenditure headings from which the provision had originally been made in earlier years.

FEDERATED SUPERANNUATION SCHEME FOR UNIVERSITIES (FSSU)

The University maintains records for former members of FSSU. No new members have been admitted to the scheme which was based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases in other pensions which have an annual inflation element built in. During the year a total of £119,200 (1997: £141,800) was paid to former members of FSSU or widows of members in respect of these unfunded liabilities.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

29. Reconciliation of consolidated operating surplus to net cash from operating activities

	1998 £000	1997 £000
Surplus before minority interest	2,416	895
Depreciation	8,954	8,049
Loss on disposal of tangible fixed asset	29	49
Deferred capital grants released to income	(1,585)	(2,187)
Investment income	(2,615)	(2,198)
Interest payable	3,617	2,259
Profit received on sale of endowments	(460)	(113)
Decrease in stock	3	86
Increase in debtors	(1,312)	(3,510)
(Decrease)/increase in creditors and accruals	(803)	10,445
Increase in provisions	1,786	1,102
Net decrease in restricted and general funds	-	(2,736)
Net cash inflow from operating activities	10,030	12,141

30. Returns on investments and servicing of finance

	1998 £000	1997 £000
Income from endowments	382	468
Income from short term deposits and investments	2,533	1,577
Other interest received	27	19
Interest paid	(3,531)	(2,057)
	(589)	7

31. Capital investment and financial investment

	1998 £000	1997 £000
Tangible assets acquired	(21,448)	(8,435)
Fixed asset investments acquired	(26)	(1,105)
Endowment asset investments acquired (note 13)	(4,716)	(1,247)
Total fixed and endowment asset investments acquired	(26,190)	(10,787)
Receipts from sales of endowment assets	4,343	1,067
Deferred capital grants received	691	131
Endowments received (note 20)	201	10
	(20,955)	(9,579)

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

32. Analysis of changes in consolidated financing during the year	1998 £000	1998 £000	1997 £000	1997 £000
<i>Balance at 1 August</i>		50,753		40,741
<i>Business Expansion Scheme</i>	1,067		1,067	
<i>New loans and increased debt</i>	14,848		9,906	
<i>Capital repayments</i>	(1,288)		(961)	
		<u>14,627</u>		<u>10,012</u>
<i>Balance at 31 July</i>		<u>65,380</u>		<u>50,753</u>

33. Analysis of changes in net funds	At 1 August 1997 £000	Cash flows £000	Other non cash changes £000	At 31 July 1998 £000
<i>Cash at bank and in hand</i>	5,849	1,553	–	7,402
<i>Short term deposits</i>	23,244	(1,101)	17,102	39,245
<i>Debt due within one year</i>	(1,033)	(207)	(18,520)	(19,760)
<i>Debt due after one year</i>	(49,720)	(11,759)	15,859	(45,620)
	<u>(21,660)</u>	<u>(11,514)</u>	<u>14,441</u>	<u>(18,733)</u>

34. Access funds	Consolidated and University	
	1998 £000	1997 £000
<i>Balance at 1 August</i>	10	14
<i>Net HEFCE grant</i>	317	278
	<u>327</u>	<u>292</u>
<i>Disbursed to students</i>	(324)	(282)
<i>Balance at 31 July</i>	<u>3</u>	<u>10</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 1998

35. Acquisition

On 1 September 1997 the University acquired part of the assets and liabilities of the La Sainte Union College of Higher Education, for a consideration of £4,000,000. Details of the acquisition, including the fair value adjustments made to the assets and liabilities acquired, are set out below:

	Book value at acquisition £000	Accounting policy alignment £000	Other £000	Fair value £000
Tangible fixed assets	6,119	(1,092)	—	5,027
Stock	4	—	—	4
Debtors - due within one year	484	—	(260)	224
Bank	1	—	—	1
Creditors - due within one year	(830)	—	—	(830)
Provisions	(827)	—	—	(827)
Deferred capital grant	(1,015)	257	—	(758)
Net Assets	<u>3,936</u>	<u>(835)</u>	<u>(260)</u>	<u>2,841</u>
Consideration			3,211	
Treasury Interest			<u>789</u>	
				4,000
Goodwill written off on acquisition				<u>(1,159)</u>
Fair value of net assets				<u>2,841</u>

The "accounting policy alignment" reflects the adoption of the University's policy in respect of equipment purchases. All individual equipment items acquired, costing less than £20,000, have been written down in accounting terms. All associated support held as a deferred capital grant has been released.

The "other" adjustment is in line with FRS7 which recognises that part of an inter company debt was considered irrecoverable at the date of acquisition.

Statistics

Financial indicators (University only)

	1998	1997	1996 New basis	1995 New basis (see note 1 below)	1995 Old basis (see note 1 below)	1994
Source of income						
HEFCE grants plus home fees and support grants/Total income	50.1%	48.5%	48.7%	51.5%	51.5%	51.9%
Overseas fees/Total income	3.9%	3.8%	3.5%	3.5%	3.5%	3.4%
Research grants and contracts/ Total income	26.7%	29.2%	28.2%	25.8%	25.8%	25.8%
Other operating income/ Total income	17.8%	17.1%	18.2%	17.7%	17.7%	—
Surplus or deficit before transfers/ Total income	1.1%	0.4%	3.7%	2.5%	2.5%	6.9%

Long term solvency

Days of total general funds and provisions to total expenditure	127	123	122	125	71	67
Ratio of long term liabilities to general funds	104.4%	118.7%	92.5%	94.5%	180.6%	157.3%
As above, excluding technical adjustments	80.0%	55.2%	28.8%	44.6%	85.3%	59.5%

Short term solvency

Net liquid assets to current liabilities	0.8:1	0.8:1	0.7:1	1.2:1	0.9:1	0.5:1
Days ratio of net liquid assets to total expenditure	101	66	40	63	56	25
Current assets/current liabilities	1.31:1	1.53:1	1.64:1	2.36:1	2.11:1	2.03:1
Ratio of movement in net liquid assets in year to same assets at start	62.5%	79.1%	(28.9)%	92.6%	151.1%	(18.3)%
Days of total income represented by debtors	29	32	25	32	32	25

1. The new format of accounts introduced in 1995 has changed some of the funds classified as 'General', particularly by including under this heading funds provided by the University to fund capital expenditure, previously shown as 'Capital Funds'. The definitions used for current and liquid assets have also changed.

Statistics

Income from sponsored research for the year ended 31 July 1998

From Research Councils	£000	From UK based charitable bodies	£000
<i>Biotechnology and Biological Sciences Research Council</i>	1,287	<i>Action Research</i>	38
<i>British Academy</i>	42	<i>Anna Douglas-Pennant Charitable Trust</i>	20
<i>Council for the Central Laboratory of the Research Councils</i>	60	<i>Arthritis Research Campaign</i>	74
<i>Economic and Social Research Council</i>	674	<i>Association for International Cancer Research</i>	50
<i>Engineering and Physical Sciences Research Council (EPSRC)</i>	8,541	<i>Birthright Trust</i>	30
<i>EPSRC Joint Funding</i>	59	<i>British Allergy Foundation</i>	46
<i>Medical Research Council</i>	1,410	<i>British Diabetic Association</i>	36
<i>Natural Environment Research Council (NERC)</i>	4,171	<i>British Heart Foundation</i>	208
<i>NERC Contracts</i>	149	<i>British Liver Trust</i>	31
<i>Particle Physics and Astronomy Research Council</i>	701	<i>British Lung Foundation</i>	30
<i>Others less than £15,000</i>	3	<i>British Medical Association</i>	46
Total	17,097	<i>Cancer Research Campaign</i>	637
		<i>Children Nationwide Medical Research Fund</i>	16
		<i>Cystic Fibrosis Research Trust</i>	41
		<i>Dove Healing Trust</i>	33
		<i>Epilepsy Research Foundation</i>	19
		<i>Gatsby Charitable Foundation</i>	23
		<i>Gift of Sight</i>	56
		<i>Henry Smith Charity</i>	53
		<i>Higher Education Information Services Trust</i>	22
		<i>Leukaemia Busters</i>	128
		<i>Leukaemia Research Fund</i>	267
		<i>Leverhulme Trust</i>	207
		<i>Lister Institute of Preventive Medicine</i>	59
		<i>Maurice Long Foundation</i>	18
		<i>Multiple Sclerosis Society</i>	74
		<i>National Asthma Campaign</i>	258
		<i>National Meningitis Trust</i>	88
		<i>Nuffield Foundation</i>	26
		<i>Oxford Archaeological Unit</i>	38
		<i>Parthenon Trust</i>	119
		<i>Research into Ageing</i>	16
		<i>Royal Academy of Engineering</i>	39
		<i>Royal College of Physicians</i>	15
		<i>Royal College of Surgeons</i>	29
		<i>Solent Subfertility Trust</i>	76
		<i>Stroke Association</i>	30
		<i>Tenovus - Bournemouth</i>	32
		<i>Tenovus - Cardiff</i>	437
		<i>Wellcome Trust</i>	1,611
		<i>Wessex Cancer Trust</i>	51
		<i>Wessex Medical Trust</i>	898
		<i>Others less than £15,000</i>	212
		Total	6,237

Statistics

Income from sponsored research for the year ended 31 July 1998 (continued)

From Other Sources	£000		£000
3M Health Care	104	European Union	4,048
Abbott Laboratories	33	Ever Ready	67
American Cyanamid Company	34	Fairey Microfiltrex	35
Amerada Hess	106	Fast2000	116
AMGEN	35	Flavour & Extract Manufacturers Association	30
Astra Charnwood	153	Ford Foundation	476
Astra Pharmaceuticals	217	Ford Motor Company	39
Avon Health Authority	54	Fujitsu European Centre for IT	28
AWE	46	Generic Biologicals	19
Bayer	88	Genome Therapeutics	985
Bios	19	GEOMAR - Germany	16
BOC Gases	24	Geometric Results	98
Bournemouth Borough Council	20	Gifford & Partners	23
Bristows, Cooke & Carmichael	16	Glaxo Wellcome	134
British Aerospace	40	Gloucestershire Health Authority	117
British Biotech Pharmaceuticals	101	Greig Fester	18
British Gas	41	Health and Safety Executive	188
British Nuclear Fuels	46	Health Education Authority	75
British Petroleum	23	Health Effects Institute	35
British Telecommunications	105	Highways Agency	32
Canadian Atmosphere & Environment Service	22	Hitachi	45
Center National D'Etudes	33	Hoechst - Germany	19
City Technology	131	Hoffman La Roche	21
Clinical Standards Advisory Group	45	Holman, Fenwick & Willan	30
Cosworth Engineering	21	Innovex UK	33
Defence Evaluation Research Agency	1,474	International Sweeteners Association	43
Delchinton Securities	19	Ipsen Biotech	59
Den Norske Stats Oljeselskap	101	John Deere Product Engineering	19
Department for International Development	202	Kyoto Electronics	59
Department of Health	1,421	Lectret Precision	25
Department of the Environment, Transport and the Regions	152	Leyland Trucks	27
Department of Trade and Industry	135	London Transport Buses	63
Devonport Management	31	Marconi Space & Defence	39
Dorset Health Authority	25	McDermott Marine Construction	15
Dow Agrosciences	48	Merck Sharpe & Dohme Research Laboratories	24
Du Pont de Nemours - France	119	Ministry of Agriculture, Fisheries and Food	688
Dubois Naval Architects	15	Ministry of Defence	618
Electrolux Floor Care	54	Ministry of Welfare - Hungary	108
English Heritage	108	National Grid	181
Environment Agency	56	National Power	17
Epigen	15	Nereus Shipping	20
European Foundation for Osteoporosis	26	New Forest District Council	16
European Paediatric Society for Allergy & Clinical Immunology	24	Newbury District Council	17
European Space Operations Centre	49	NHS Management Executive	16
European Space Agency	107	North & East Devon Health Authority	23
		North & Mid Hampshire Health Commission	19

Statistics

**Income from sponsored research
for the year ended 31 July 1998
(continued)**

From Other Sources	£000		£000
<i>Northern and Yorkshire Regional Health Authority</i>	40	<i>Southampton University Hospitals Trust</i>	33
<i>Norton Health Care</i>	46	<i>Southampton and South West Hampshire Health Authority</i>	60
<i>Novartis</i>	88	<i>Southern Water Services</i>	20
<i>Office for National Statistics</i>	141	<i>States of Jersey Environment Unit</i>	15
<i>Organon Teknika - Belgium</i>	34	<i>Stallergenes</i>	28
<i>Oxford Molecular</i>	57	<i>Stanford Rook</i>	114
<i>Parexel International</i>	49	<i>STC Submarine Systems</i>	15
<i>Perini Navi</i>	18	<i>Stewart Hughes</i>	42
<i>Pfizer</i>	140	<i>Sumitomo Chemical Company</i>	20
<i>Pharmacia and Upjohn</i>	25	<i>Team New Zealand</i>	34
<i>Pharmaco</i>	63	<i>Tickford</i>	15
<i>Pirelli</i>	234	<i>TNO Institute of Applied Physics - Netherlands</i>	48
<i>Portsmouth & South East Hampshire Health Authority</i>	23	<i>Torbay District Council</i>	30
<i>Prada America's Cup</i>	40	<i>Toshiba</i>	100
<i>Research Publications International</i>	169	<i>Transport Research Laboratory</i>	179
<i>Rhone Poulenc</i>	200	<i>UCB Pharma</i>	31
<i>Roche Products</i>	85	<i>Unichema Chemie</i>	52
<i>Rohm & Haas Company</i>	17	<i>Unipath</i>	27
<i>Rolls Royce</i>	30	<i>United States Air Force</i>	66
<i>Rotta Research Laboratorium</i>	78	<i>United States Navy</i>	138
<i>Royal Berkshire Hospital</i>	43	<i>University La Sapienza</i>	16
<i>Royal Society</i>	401	<i>University of Leicester</i>	16
<i>Sagamore Sailing</i>	55	<i>University of Reading</i>	55
<i>Saint Saviours Hospital - Jersey</i>	18	<i>Virtual Centre of Excellence in Mobile & Personal Communication</i>	51
<i>Schering Plough</i>	430	<i>Vortoil Separation Systems</i>	20
<i>Shell UK</i>	17	<i>Vosper Thornycroft</i>	36
<i>Simpson International</i>	25	<i>Waltham Centre for Pet Nutrition</i>	73
<i>Slough Borough Council</i>	31	<i>Water Research Centre</i>	55
<i>SmithKline Beecham</i>	120	<i>Wessex Renal & Transplant Unit</i>	24
<i>Smiths System Engineering</i>	120	<i>Wiltshire Health Authority</i>	23
<i>SNCF</i>	50	<i>Zeneca</i>	105
<i>South and West Devon Health Authority</i>	93	<i>Others less than £15,000</i>	1,501
<i>South and West Regional Health Authority</i>	1,928	Total	22,594
<i>South Thames Regional Health Authority</i>	83		

